In Pursuit of Opportunity: FAS and Foreign Market Development

By Ryan Swanson

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Promotion of U.S. foods and wines in Stockholm, Sweden. 1993

Imagine for a moment that you're a South Dakota farmer. Each year you plant, nurture and harvest your crop of wheat. In good years, the long summer days pay off with a bumper crop in the fall. In not-so-good years, the same amount of toil, negated by adverse conditions, results in a harvest somewhat smaller than you hoped for. But your goal as a farmer remains the same: produce as much high-quality wheat as possible. This quest for optimal production is, it seems, an inherent characteristic of U.S. farmers and ranchers.

Over the past decades, agricultural producers have embraced technology in response to this quest for increased production. Technology has increased yields, pesticides have curtailed the damage of insects, and labor-saving machines have allowed one person to do what used to take twenty. The results of such efforts have been bountiful harvests and a place for America among the world's most productive agricultural nations. But what happens when production–whether it is of wheat or walnuts–outpaces U.S. demand?


The FAS Letter

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Undergraduate students in early FAS junior development program. 1959

This question is far from a hypothetical one, as farmers today know. America's scale of supply and demand has tipped to the point where the production of many agricultural commodities–including staples such as wheat, beef and soybeans–exceeds domestic demand. Although a credit to America's ultra-productive farmers and ranchers, this imbalance demands that producers find an alternative outlet and has led to reliance on international markets. Selling to economically viable foreign markets has become a necessity. But how do you get started? How do you research which countries would be interested in U.S. wheat, the costs involved in start-up and the intricacies of tariffs and taxes?

Seeds of Market Development

Fortunately for American farmers and ranchers, in 1953 FAS (the Foreign Agricultural Service) was created. FAS' primary goals are making agricultural exporting less confusing and creating new market opportunities. FAS provides three kinds of support for prospective exporters: information, marketing and financial assistance.

Through foreign market development assistance, FAS helps producers target those markets that would be receptive to receiving American commodities. FAS also provides technical assistance and research relating to foreign competition, consumption habits and transport costs.

FAS further assists agricultural producers in devising marketing strategies to reach foreign consumers and helping exporters finance sales.

FAS has different programs for different industries and target markets. Foreign market development is a process that takes place in many stages. The first step is often one of providing agricultural commodities in support of basic economic growth and providing better nutrition to a country's citizens. At the beginning of this developmental continuum, FAS monitors the donation of thousands of tons of agricultural resources to needy countries each year. P.L. 480, Title II, which is administered by the U.S. Agency for International Development, allows the U.S. government to purchase U.S. commodities and donate them to meet humanitarian needs around the world. The Food for Progress program is another step in foreign economic development to create viable markets. The program allows FAS to donate agricultural commodities to developing nations making the transition to a private market economy. The receiving foreign government may then sell the commodity to support economic and agricultural development programs.

Once a country achieves a certain level of economic stability, outright donations become less frequent. But the United States continues to provide stepping stones to help developing countries become fully viable economic markets. Title I of P.L. 480 provides concessional credit terms to those countries wishing to buy U.S. agricultural products. Repayment options of up to 30 years with low interest rates and generous grace periods allow countries that would otherwise be unable to meet their food needs to purchase U.S. agricultural goods.

FAS also administers the commercial Export Credit Guarantee Programs. These programs guarantee repayment of commercial loans extended from U.S. banks to foreign institutions to buy U.S. farm products. The 2002 Farm Bill (Farm Security and Rural Investment Act of 2002) authorized $5.5 billion worth of export guarantees annually for five years, continuing programs that remove much of the risk from U.S. lending institutions and promote further growth in foreign markets.


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West Germany's Minister of Agriculture Ertel and his assistant Perkymer meet with Agricultural Counselor Turner Oyloe in Munich, West Germany. 1974


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FAS Tokyo team, left to right: Assistant Attaché Thomas Hamby, Mrs. Bill Davis, William Clark, Ambassador Mike Mansfield, Counselor Bill Davis, Assistant Attaché Suzanne Hale, Attaché John Beshoar, Assistant Attaché Daniel Berman and Doreen Burden. 1981

FAS' eyes and ears overseas provide invaluable information for all of the agency's programs. FAS attachés, agricultural counselors and market analysts are stationed in over 120 countries around the world to relay up-to-the-minute reports back to U.S exporters. They are important links between U.S. farm groups and foreign buyers.

Cooperation—Cooperators—Are Key

The oldest market development program is FMD (the Foreign Market Development Program, also known as the cooperator program). Created in 1955, FMD embodies the agency's primary goal: to "expand export opportunities for U.S. agricultural, fish, and forestry products." The program concentrates primarily on long-term development for bulk commodities such as grains, oilseeds and cotton. The export of these raw commodities remains crucial to both farmers and the U.S. economy. USDA estimates that producers export 20 percent of corn, 43.1 percent of soybeans, 43.5 percent of wheat and 45 percent of cotton grown in the United States each year. It further estimates that agricultural exports will total $56.2 billion in 2003.

But the benefits to the U.S. economy are far greater. Every dollar of exports generates another $1.47 in supporting activities to process, package, ship and finance agricultural products. This means that those $56.2 billion in exports will generate an additional $81 billion in supporting business activities. Exports also mean jobs: jobs that pay higher-than-average wages and are distributed across many communities and professions, both on the farm and off, in urban and rural communities.

The creation of "cooperators," among other measures, contributed to healthy agricultural export numbers. As defined by the Agricultural Trade Act of 1978, a cooperator is a nonprofit trade association that represents a broad coalition of producers of a specific commodity. When considering admitting a potential cooperator into the program, FAS looks at four factors: the applicant's willingness to contribute its own resources, the applicant's ability to provide an experienced staff, the overall effect of the proposed cooperator on U.S. foreign market development and the degree to which the cooperator's goals are in line with those of the FMD program.

In 1955, the NCC (National Cotton Council) signed the first cooperative agreement, in a move that was filled with both optimism and uncertainty. As the ink was drying on the NCC's agreement, the Oregon Wheat Council quickly signed on as the second cooperator. Within the next three years, FAS signed cooperator agreements with groups representing soybeans, dairy products, millers, poultry, rice, prunes, raisins, citrus, canned peaches, red meats, tallow and grease, apples and pears.

As the program evolved, a few pivotal guidelines formed its backbone. Cooperator funds could be used only to support trade *outside* the United States. Activities eligible for support included trade servicing, market research and technical assistance to actual or potential customers of U.S. commodities. FAS also demanded that commodity groups be active partners, vesting their own financial resources in the goal of developing foreign markets. Currently, groups applying for cooperator status are required to submit a detailed market proposal, as well as convince FAS officials of how they will "contribute to the effective creation, expansion or maintenance of foreign markets."

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Minister-Counselor Gerald Harvey welcomes German Minister of Agriculture Iganz Kiechle to U.S. Pavilion at ANUGA International Food Exhibition in Cologne, Germany. 1991

Throughout the years, each relationship formed between FAS and a cooperator has been unique. The NCC, leading the way as the first cooperator, moved quickly to open its first European office for cotton promotion in Paris. In 1956, the NCC created a separate corporation, CCI (Cotton Council International), to serve as a liaison between FAS and foreign organizations. CCI pursued foreign market expansion as its primary mission. In

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Undersecretary August Schumacher and Minister Counselor Thomas Hamby attend farmer-to-farmer mission in London, England. Circa 2000 perhaps their most innovative measure, cotton leaders established the International Institute for Cotton. The organization encouraged cotton-producing countries to combine efforts and even to share information to increase the world's preference for cotton.

The U.S. Grains Council fostered a completely different FAS-cooperator relationship. It brought together farmers of three commodities–barley, corn and sorghum–to become a cooperator in 1960. The council's proposal contained ambitious goals for foreign exports that seemed unhindered by the organization's relative lack of infrastructure and experience.

Former executive director Bill Nelson recalls the council's early days: "Our first FAS contract was hammered out by leaders between appointments. For lack of an office and staff, this contract was typed with a rented typewriter, using my wife's ironing board as a desk. The 20 copies FAS wanted were made on a copy machine at the bank." The U.S. Grains Council, like the NCC, targeted Western Europe as its first region of opportunity. However, in only five years the council shifted its emphasis to the Far East, and by 1965 twice as much grain was being exported to Japan as to any other country.

Since its early years, the U.S. Grains Council has taken extraordinary steps to create markets for feed grains. In 1972, for example, after opening a trade office in Seoul, South Korea, the council instituted an ambitious education system known as the Daehan project. This involved shipping 264 calves to the country and subsequently teaching Korean ranchers U.S. methods for designing a feedlot, nourishing and treating animals and slaughtering them properly. The success of the project led the council to launch a similar program in Japan and subsequently to open offices in Taiwan and Singapore.

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In 1981, the U.S. Grains Council helped ease a meat shortage in Egypt by creating a beef buffalo industry. The council determined that because buffalo milk was an extremely coveted commodity in Egypt, farmers were protecting their milk supply by slaughtering suckling calves before they reached maturity. The council developed a replacement for the buffalo milk so that the calves could thrive and farmers could still sell the milk. Using the replacement, the council developed a pilot buffalo feeding project that was so successful that the Egyptian government ordered that it be expanded. Developing a replacement allowed the buffalo beef industry to grow and created a large demand for U.S. grains. Again, success led to expansion.

Trade Policies Spark Program Shifts

Despite the successes of FMD, many U.S. agricultural producers grew frustrated throughout the 1970s and 80s with an escalating "agricultural trade war." A vast system of foreign subsidies, import quotas and other unfair trade practices were directed at U.S. exports. The European Union, in particular, with its Common Agricultural Policy, attempted to shut out U.S. producers with price adjustments and taxes. Although the GATT (General Agreement on Tariffs and Trade) was created, in part, to limit such unfair pricing and import levies, protesting U.S. farm groups found that corrective action came slowly, if at all, from the international level. This inaction led the U.S. Congress to authorize the TEA (Targeted Export Assistance) Program in the Food Security Act of 1985. This program, renamed and expanded to become MPP (the Market

Promotion Program) in 1990 and, in 1996, MAP (the Market Access Program), proved to be another valuable tool for U.S. farmers.

MAP offered new alternatives by focusing primarily on the export of value-added commodities. MAP designated $100 million for targeted export growth in fiscal 2003 for cooperatives, regional groups and small businesses.

By allowing small businesses to participate in this program, MAP made a sharp departure from the "nonprofit rule" that had governed almost all FAS partnerships prior to 1985. But FAS set careful parameters on which for-profit firms could participate. To receive assistance under what became known as "branded promotion," companies had to meet the definition of a small business under the Small Business Act. Additionally, companies had to contribute at least 50 percent of funding for any venture with FAS, and MAP limited the promotion of branded products to a term of five years. As of 2003, Blue Diamond Growers, Sunkist Growers Inc. and Welch's Food are among the cooperatives that have met the requirements and helped turn this venture into a successful one.

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Agricultural Counselor Turner Oyloe checks out U.S. produce at an open-air vegetable stand in Paris, France. 1980

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Marketing team at Harumi Show, Tokyo, Japan. 1981

The Need for Development Programs

Detractors have attacked FAS generally, and MAP particularly, as an example of corporate welfare. They contend that if foreign market development was economically viable, then private companies would do it without the government's help. But this contention overlooks the unique characteristics of the agricultural industry.

The industry is internally segregated, with each commodity acting almost as an independent economy. Agriculture is also geographically isolated. Most farms in the United States are small, private operations, and only 1 percent of them has gross sales that exceed $1 million. Compared to other exporters, for example manufacturing giants, agricultural producers are mostly small enterprises. The relative size and diversity of the agricultural industry makes necessary a collaborative relationship with FAS to bring together often-isolated farmers.

MAP's success stories are numerous and diverse. CSC (the California Strawberry Commission) has used MAP funds to market its commodity to Japan during the summer months. Typically, Japanese consumers associate strawberries with winter and spring, but CSC's "Summer Strawberry" breakfast campaign helped change this perception. Through store sampling and in-store promotion, the campaign created a market niche for California strawberries.

The Texas Produce Export Association used MAP funds to increase significantly exports of grapefruit to the Canadian province of Quebec. As a result of promotional efforts, awareness and demand increased dramatically, and

Quebec merchants purchased over 70,000 cartons of grapefruit in 2001-2002, up nearly 700 percent from the season before.

The success of MAP is one aspect of FAS' larger foreign market development strategy. FMD lays the groundwork for profitable trade by conducting long-term research and promotional activities in promising countries. It assists foreign markets in obtaining the technical and trade infrastructure necessary to do business with U.S. farmers. MAP activities build upon this foundation and target specific sectors of a foreign country's economy. MAP helps locate possible niches and helps cooperatives and small businesses realize their exporting potential.

New Programs for New Times

In recent years, program innovations have continued to improve upon the status quo. The Quality Samples Program, inaugurated in 2002, offers funds to agricultural trade organizations so that they can provide product samples to potential foreign buyers. In 2002, USDA allocated nearly $1.5 million for this effort, banking on the premise that the quality of U.S. products will be evident to those who experience them. In essence, FAS is betting that high-quality goods can sell themselves if they reach the right hands.

Many of the most promising markets for future agricultural export growth lie in developing nations rather than in more mature markets such as Western Europe. Because of this fact, FAS has devoted significant resources to EMP (the Emerging Markets Program).

EMP targets developing countries such as those in Latin America and Eastern Europe. Using standards established by the World Bank, the program targets countries that have a per capita income below $9,360 and a population greater than 1 million people. EMP focuses on exporting bulk commodities to underdeveloped regions, as opposed to MAP's concentration on value-added goods, and in doing so facilitates the gradual building of infrastructure necessary for full-fledged agricultural markets.

In 2002, Congress increased the resources available for foreign market development, and asked FAS to address additional problems in the world of agricultural trade. The 2002 Farm Bill authorized creation of the Technical Assistance for Specialty Crops Program to confront barriers that specifically target U.S. export commodities. Farmers assisted by the program in 2003 included producers of apples, grapes, lettuce, potatoes and raisins. The Farm Bill set funding for the program at $2 million annually, ensuring that assistance would extend to almost any farmer with a viable export plan.

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The level of competition on the world market continues to rise. And, consequently, so does the amount of money spent by foreign governments to support their agricultural producers. Agricultural competitors of the United States spend over $1 billion in market promotion each year. The 2002 Farm Bill authorized FAS to expand its programs in order to keep pace. MAP received the largest increase in funding, going from a budget of $90 million in 2002 to $200 million in 2006. FMD received a bump from $27.5 to $34.5 million.

FAS will continue its comprehensive market development program efforts to meet the needs of people throughout the world, focusing first on donating food to impoverished developing countries, and then working to establish trade relations with them. Such actions will continue to help U.S. producers and exporters find viable markets for their high-quality products. ■

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